

**REQUEST FOR PROPOSAL
TO CONDUCT A
COMPREHENSIVE REVIEW
OF THE FINANCIAL INTEGRITY OF
VERIZON NEW JERSEY**

DOCKET NO. TO01020095

**Division of Audits
New Jersey Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102**

SECTION 1. GENERAL INFORMATION

1.1 Introduction. The New Jersey Board of Public Utilities (Board) issues this Request for Proposal pursuant to N.J.S.A. 48:2-21.18d and N.J.S.A. 48:2-16.1 et. seq., to secure the services of a third party (Consultant) to conduct a comprehensive review of the financial integrity of Verizon New Jersey Inc. (VNJ), and its relationship with its corporate parent, Verizon Communications (Verizon), as directed by the Board in its Order in Docket No. TO99120934, et. al. dated December 22, 2000. This review is to be conducted on a “not to exceed cost basis” and according to the attached schedule.

1.2 Objective. The results of the review will determine if VNJ’s reporting and practices with respect to the areas being considered comply with applicable law, Board Rules, Board Orders and procedures. To the extent that compliance exceptions are identified, the Consultant’s report will enable the Board to direct any necessary remedial efforts to bring VNJ into compliance.

1.3 Scope. In addition to providing for its review of VNJ’s proposal for a new Plan for Alternative Regulation, Docket No. TO01020095 (“proposed PAR”) in the December 22, 2000 Order, the Board determined that a comprehensive review of VNJ’s financial integrity and its relationship with its parent, Verizon Communications, would be conducted by an independent third party consultant.

To conduct this comprehensive review of VNJ’s financial integrity, the Consultant will utilize the analysis of VNJ’s earnings filed by VNJ in the proposed PAR proceedings, the SEC 10K Annual Reports, the Annual Reports to the FCC and the Board, the surveillance reports to the Board and such other documents that the Board, its Staff and the Consultant deem necessary. This review will give particular attention to the existing VNJ policy that determines the amount of dividends sent to the parent Corporation. In reviewing VNJ’s financial integrity, the Consultant will consider earnings, capital structure, overall rate of return, return on equity, bond ratings, pre-and post-tax interest coverage, dividend policy and other financial integrity measures reasonably applicable to VNJ, including the use of investment analyst opinion on the company. In evaluating VNJ’s relationship with its parent Corporation, the Consultant will examine the process/method of allocation and the reasonableness of affiliated costs as well as VNJ’s compliance with applicable allocation rules on costs and revenues to ensure that VNJ’s reports appropriately reflect the share of revenues and the direct, joint and common costs reflected in its overall New Jersey intrastate reporting, as well as the portion related to its rate-regulated intrastate services.

In addition, the Consultant will review the data presented by VNJ on its quantification of savings and costs resulting from the 1997 Bell Atlantic/NYNEX merger and the 2000 Bell Atlantic/GTE merger. The Consultant will analyze the VNJ quantification of merger savings and costs

to evaluate whether the allocations of merger costs and savings are appropriate and reasonable and comply with applicable rules and, where estimates were provided by VNJ, whether these estimates are based on reasonable assumptions and data.

1.4 Schedule. It is the Board's intention to adhere to the schedule as proposed in Attachment 1.

1.5 Definitions and Responsibilities of Parties. The definitions and general responsibilities of the Board, Utility and Consultant are as follows:

1.5.1 Board. The Board is the client for whom the review is to be performed and is the sole point of contact for this RFP. The Board and/or its staff will: (1) evaluate submitted proposals; (2) select the Consultant; (3) authorize the execution of a written agreement between the Utility and the Consultant; (4) supervise the performance of the review; (5) review the Consultant's expenses and authorize payment by the Utility; (6) evaluate the results of the review; and (7) order the Utility, if necessary, to adopt new or altered practices and procedures.

1.5.2 Utility. The Utility is the subject of the review. The Utility will: (1) provide input into the selection of the Consultant; (2) provide appropriate office accommodations for the Consultant and the Board's staff; (3) pay the Consultant according to invoices submitted to and reviewed by Board's Staff; (4) provide comments on the review findings; and (5) adopt new or altered practices and procedures, as ordered by the Board.

1.5.3 Consultant. The Consultant is the selected consulting firm, its personnel and subcontractors. The Consultant will: (1) perform the review under the supervision of the Board's staff; (2) report, as required, to the Board's staff; (3) submit expenses to the Board's staff for review and recommendations for payment; (4) submit results of the review to the Board's staff; and (5) provide testimony, if required, regarding the results of the review.

1.6 Confidentiality. Unless otherwise ordered by the Board, all aspects of this RFP, submitted proposals and performance of the review shall be confidential.

1.7 Rejection of Proposals. The Board reserves the right to reject any or all submitted proposals not in conformance with this RFP, or for other cause.

1.8 Proposal. Consulting firms must submit a complete response to this RFP using the format provided in Section 2.1. There must be one original, signed by an official authorized to bind the consulting firm to the proposal's provisions, and 10 copies. The proposal must remain valid for the length of the review. Once all accepted proposals are reviewed, the Board's staff may require interviews with the remaining consulting firms to discuss the contents of the proposals. Both the RFP and the proposal will comprise contractual obligations for the selected Consultant, unless modified by mutual consent.

1.9 Incurred Costs. The Utility shall not be liable for any costs incurred by the Consultant prior to the Board's selection of the Consultant.

1.10 Compensation. Payment of any contractual costs incurred subsequent to the signing and authorization of a written agreement will be made monthly upon receipt of the Consultant's invoice as set forth in Section 3.4. Payment of monthly invoices will be 100% of the undisputed amount of expenses and 80% of the undisputed amount of professional and support staff fees. The remaining 20% will be paid when the final report is filed with the Board and all contractual obligations have been met. Disputed amounts shall be subject to review and determination by the Board.

1.11 Subsequent Work. The Consultant or any of its personnel involved in the review of the Utility will not be permitted to perform any subsequent work for the Utility for a period of two years after the completion of the review, without the approval of the Board.

SECTION 2. PROPOSAL CRITERIA

2.1 Format. Review of the proposal will be based on the following format:

2.1.1 Summary. A discussion reflecting the consulting firm's understanding of the proposed review.

2.1.2 Work Plan. A discussion setting forth the consulting firm's work plan, as follows:

- A. approach, with emphasis on the techniques for collecting and analyzing data;
- B. products to be delivered and time estimates for each task;
- C. sequence and relationship of all areas to the experience of the personnel in each category; and
- D. methods of managing the review.

2.1.3 Experience. A five-year resume of the consulting firm indicating previous management audit experience with full identification of all references and descriptions of the audits performed.

2.1.4 Personnel. Resumes of all personnel to be involved in the review, including previous management audit experience, clients served and respective dates. Experience should reflect previous work assignments for each person as it relates to the area of their assignments.

2.1.5 Relationship with Utility. A statement indicating any prior, existing or prospective relationship, financial or otherwise, between the consulting firm, its personnel or subcontractors, and the Utility.

2.1.6 Costs. Total estimated cost of services, itemized as follows:

- A. professional and support staff fees of all personnel, consisting of the projected hours and rate per hour for each category;
- B. supplies and materials;
- C. all travel expenses, including transportation, meals, lodging, etc;
- D. any other direct costs; and
- E. Costs incurred after completion of the review (i.e., if necessary for the presentation of findings, cross examinations, hearings and all other procedural matters) will be in addition to the cost of the review, and are to be negotiated between staff and the consultant.

Costs for the performance of work determined to be outside the initial scope of the RFP by the Board or its staff will be only incurred with specific written authorization by the Board's staff. The hours worked shall be billed at the average professional rate per hour based upon all professional rate categories set forth in Section 2.1.6. If the Board's staff determines additional hours to be necessary, said hours shall be considered to be a modification to the written agreement and shall be mutually agreed upon by Board staff and the consultant unless otherwise ordered by the Board.

2.2 Other Information. Any other information which may assist in the review of a submitted proposal, such as brochures, literature or samples of recent management audits, may be submitted with, but shall not be considered part of, the proposal.

SECTION 3. REVIEW PROCEDURE

3.1 Safety Standards. When on the Utility's premises, the Consultant must comply with all regulatory standards and Utility policies dealing with safety, insurance and work specifications.

3.2 Project Control. The audit will be performed in accordance with the written agreement. There will be no direct reporting by the Consultant to the Utility. All written and oral communications will be through the Board's staff. The Consultant may be requested to discuss the audit's progress with the Board's staff, as necessary.

3.3 Monthly Progress Reports. The Consultant shall submit a monthly written report, by the fifth business day following the month's end, for any month in which work was performed. The report shall consist of a general narrative providing adequate information regarding the status of the audit, with an explanation of any discrepancies between the work plan and actual progress.

3.4 Invoices. An invoice for payment may be submitted at any time following the month's end, for any month in which work was performed or expenses were incurred. All invoice amounts shall be supported by appropriate documentation at the Consultant's office and may be subject to an audit by the Board and/or the Utility for a period of two years after the completion of the audit. The invoice should be itemized as in Section 2.1.6 and shown in relation to the contractual cost.

3.5 Development of Final Report. The results of the audit shall be filed with the Board in a final report. The development of the report will evolve in three stages:

3.5.1 Task Reports. Upon completion of an audit of a major area, a draft task report shall be submitted which shall include, but shall not be limited to: (1) an overview; (2) findings and conclusions; and (3) preliminary recommendations for improvement, with quantitative and/or qualitative justification of every recommendation. The Utility shall be permitted to review each task report and provide written comments.

3.5.2 Draft Report. A draft of the final report shall be submitted and shall be comprised of: (1) a summary of the audit process; (2) an overall assessment of the Utility; (3) a detailed list of all recommendations; and (4) a compilation of the task reports and Utility comments. Any changes in the task reports shall be clearly identified in the draft report. The draft report is subject to review and comment by the Utility. Upon the resolution of any factual discrepancies, the Board's staff will authorize the preparation of the final report.

3.5.3 Final Report. The final report shall consist of two volumes: an executive summary volume, which shall contain items (1), (2) and (3) of Section 3.5.2; and a technical analysis volume, which shall contain items (1), (2), (3) and (4) of Section 3.5.2. The Consultant shall provide one bound original final report to be filed with the Board, 50 bound copies and two master copies suitable for producing photocopies.

ATTACHMENT 1

ESTIMATED SCHEDULE

1. Send RFP to prospective consulting firms	05/09/01
2. Receive letters of intent from prospective consulting firms	05/16/01
3. RFP review conference	05/21/01
4. Receive proposals from prospective consulting firms	06/01/01
5. Board selects consultant	06/20/01
6. Signing of contract	06/21/01
7. Review begins	06/21/01
8. Consultant submits Draft Report for review	09/21/01
9. Consultant submits Final Report	10/19/01
10. Board Accepts Report	11/08/01